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# APPENDIX: VI

## POOLING PLAN

Governing

OIL AND GAS

in the

MISSION CANYON FORMATION

for

Lsd 1 and 2 in Section 31, Township 3, Range 32, West of the 1st Meridian

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HASTINGS OIL AND GAS FIELD

SASKATCHEWAN

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CANADA



POOLING  
PLAN

governing the development and operation of the drainage unit comprising Legal Subdivisions numbers one (1) and two (2) in section thirty-one (31), township three (3), range thirty-two (32), west of the first meridian, in the Hastings Oil and Gas Field, Saskatchewan, in so far as such land relates to and comprises oil and/or gas as herein defined, in the Mission Canyon formation.



# MINISTER'S ORDER

Under the  
Oil and Gas Conservation Act

## POOLING PLAN

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# MINISTER'S ORDER

## Under The Oil and Gas Conservation Act

Whereas pursuant to the provisions of The Oil and Gas Conservation Act and the Regulations thereunder, the Oil and Gas Conservation Board held a Public Hearing on the 12th day of February, 1957, for the purpose of considering an application made by Husky Oil & Refining Ltd. on behalf of certain interested parties and hearing any submissions in respect thereto for an order pooling all interests within the drainage unit prescribed for an oil well in the Hastings Field, comprising LSD's 1 and 2 of section 31, township 3, range 32, west of the 1st meridian in the Province of Saskatchewan, for the further development and operation of the said drainage unit in so far as it relates to and comprises oil and gas in the Mission Canyon Formation.

And whereas the said board, following due consideration of the application and submissions, found that there is no voluntary pooling in effect in respect to the said interests and recommended that all the interests in the said drainage unit respecting the Mission Canyon Formation be pooled for the purpose of the development and operation of the drainage unit for the production of oil and gas in accordance with the pooling plan hereto.

Now by virtue of the power vested in me by The Oil and Gas Conservation Act, I do hereby order that all the interests in the said drainage unit respecting the Mission Canyon Formation be pooled for the purpose of the development and operation of the drainage unit in accordance with the pooling plan hereto.

Dated at Regina, Saskatchewan, this 27th day of February, 1957.

J. H. BROCKELBANK,  
Minister of Mineral Resources.

## Pooling Plan

Governing the development and operation of the drainage unit comprising Legal Subdivisions numbers one (1) and two (2) in section thirty-one (31), township three (3), range thirty-two (32), west of the first meridian, in the Hastings Oil and Gas Field, Saskatchewan, in so far as such land relates to and comprises oil and/or gas as herein defined, in the Mission Canyon formation.

## PART I

### Interpretation

1. This plan shall be construed with reference to the terms and expressions in The Oil and Gas Conservation Act and the regulations thereunder made by

Order in Council No. 2709/56 as amended.

2. In this plan, including this section, unless the context otherwise requires, the expressions:

(a) "Gas" means natural gas produced in association with oil.

(b) "Mission Canyon Formation" means the uppermost one hundred (100) feet of the Mississippian system, underlying Legal Subdivisions one (1) and two (2) of section thirty-one (31) in township three (3), of range thirty-two (32), west of the first meridian.

(c) "Oil" means all hydrocarbons from the Mission Canyon formation produced at the surface in a liquid state.

(d) "Participating Interest" means a working interest owner's share in all the costs and expenses of the operations hereunder, and in all the oil and gas produced and saved, or in the proceeds from the sale thereof, from the Pooled Area expressed as a percentage. Each



working interest owner's participating interest is the aggregate of such working interest owner's interests in the Tracts as set forth in Part XII hereof. The aggregate of the participating interests shall at all times equal one hundred per cent.

(e) "Pooled Area" means and comprises the lands set forth and described in Part XII hereof and included within the heavy broken line on the map or plat set forth in Part XI hereof, in so far and to the extent only that such lands relate to and comprise oil and gas in the Mission Canyon formation.

(f) "Royalty Interest" means any interest other than a working interest in, or the right to receive a portion of the oil and gas produced from any part of the Pooled Area or the proceeds from the sale thereof, and includes the Royalty interest reserved to the lessors named in the leases under which working interests in the Pooled Area are held, and where the working interest is held by virtue of a title in fee simple, the usual and customary freehold one-eighth royalty interest, and any overriding royalty interests, or other payment out of, or burden on a lease or other contract which does not carry with it a right to search for and produce oil and gas.

(g) "Tract" means either of the separate numbered tracts of which the Pooled Area is formed as shown on the map or plat in Part XI hereof and as enumerated and described in Part XII hereof.

(h) "Tract Factor" means the percentage of participation in the total oil and gas produced from the Pooled Area which is allocated to each numbered tract within the Pooled Area, such tract factors being set forth opposite the description of each numbered tract in Part XII hereof.

(i) "Well" or "the Well" means the well to be drilled on Legal Subdivision two (2) of section thirty-one (31) in township three (3), range thirty-two (32), west of the first meridian in the Province of Saskatchewan pursuant to the terms of Part IV of this Plan.

(j) "Working Interest" means the right in whole or in part to search for and produce oil and gas from any part of the Pooled Area and to appropriate the production therefrom either for the owner of such right or for others, whether such right be derived from ownership in fee simple, an oil and gas lease, or any other disposition.

## PART II

### Pooling

3. From and after the 13th day of March, 1957, (hereinafter called the effective date), the respective interests of the working interest owners and the royalty interest owners in and to all of the Pooled Area shall be unitized, pooled, consolidated and integrated for the purposes of the development and operation of the Pooled Area for the production of oil and gas therefrom, to the end that, from and after the effective date, all operations shall be carried on without regard to the boundary lines of the separately owned Tracts within the Pooled Area.

4. The drilling, completion or operation of a well on any part of the Pooled Area shall be construed and considered as the drilling, completion or operation of a well on each Tract and within the terms and provisions of each and every oil and gas lease or gas lease and other contract and any and all ratifications, corrections or other modifications or amendments thereto covering any portion of the Pooled Area, and the production of oil and gas from any Tract shall be considered for all purposes (including the payment of royalties as hereinafter provided) as the production of oil and gas from each Tract and within the terms and provisions of each and every oil and gas lease or other contract covering any portion of the Pooled Area and shall continue each such oil and gas lease and/or other contract in full force and effect as to all the lands and formations covered thereby in the same manner and to the same extent as if produced from the land described in and covered by it.



## PART III

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### Title

5. Within thirty days next following the effective date, all working interest owners shall submit to the Operator proof of title to their respective Tracts to the satisfaction of the Operator.

6. The Operator shall, in writing, and within a reasonable time, approve or disapprove title documents submitted pursuant to the provisions of section 5.

7. Approval by the Operator of any title or ownership of any interest shall not be construed as a warranty or certification of title or ownership of any interest in any portion of the Pooled Area or the production of oil and/or gas therefrom.

8. Following approval of title documents by the Operator pursuant to section 5, the Operator shall file a Caveat in the appropriate Land Titles Office against the lands contained in the Pooled Area on behalf of all the working interest owners, basing the said Caveat upon this Plan.

9. Every working interest owner shall promptly inform the Operator of any dispute to or transfer or assignment of his right or title to any portion of the Pooled Area or the production therefrom.

10. In the event of any dispute to the title of or interest owned by any working interest owner in any Tract, the Operator shall, upon being notified of same, be entitled to sell the portion of the share of production allocated to such Tract owned by such working interest owner and impound in a separate trust account the proceeds of such sale until such time as the dispute is settled.

11. If title to any numbered Tract is lost in whole or in part, the participating interest of the working interest owner or owners who claimed to own the interest in such numbered Tract which has been lost shall be reduced or eliminated accordingly and if necessary the Tract Factor and participating interest as set forth in Part XII hereof shall be amended accordingly.

12. There shall be no liability on the part of the Operator in relation to the

payment out of the proceeds of the sale of the allocated production with respect to any Tract or interest which is the subject of dispute, provided the Operator acted in good faith and without any notice of defect in the right or title of the owner of the said tract or interest.

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## PART IV

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### Drilling and Completion of Well

13. The Operator shall commence and thereafter diligently and continuously drill to completion or abandonment a well on Legal Subdivision two (2) of section thirty-one (31) in township three (3), range thirty-two (32), west of the first meridian which shall be carried to a depth sufficient to adequately test the Mission Canyon formation.

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## PART V

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### Costs and Expenses

14. Subject to sections 15 and 16 hereof, all costs, expenses and liabilities accruing or resulting from the operation of the Pooled Area pursuant to this Plan shall be determined, shared and borne by the working interest owners in proportion to their respective participating interests and all said costs and expenses shall be charged to all of the working interest owners on the basis set out in the Accounting Procedure attached hereto and by this reference incorporated herein and made a part hereof.

15. The Operator shall initially pay and discharge all costs, expenses and liabilities (including Surface Lease rentals) incurred by him in connection with the operations hereunder and shall bill each of the working interest owners with his proportionate share of such costs, expenses and liabilities in accordance with the provisions of the Accounting Procedure. Each working interest owner shall pay all such charges within thirty days after the receipt thereof, and should any such working interest owner fail to pay his proportionate part of such costs, ex-



penses and liabilities within the said thirty day period, the same shall bear interest at the rate of six per cent (6%) per annum after said thirty day period until paid and if the Operator makes such charge, such money shall belong to the Operator or other party or parties whose money was used to pay such costs, expenses and liabilities. The Operator shall have the right at any time thereafter, such default continuing, to enforce the lien hereinafter provided for upon the respective interests of such working interest owner.

16. The Operator shall be entitled to and shall have a lien on the respective interests of each of the working interest owners (other than the Operator's) share in the oil and gas produced from the Pooled Area, the proceeds thereof, and the material and equipment thereon, provided that such lien shall not extend to any Crown royalty or the usual and customary freehold one-eighth royalty. For the purposes of this section, and this Plan, the estate of Peter Carnduff, deceased, shall be deemed to be the owner of the usual and customary freehold one-eighth royalty interest in respect of Tract Number I.

17. Subject to section 16, whenever a working interest owner fails to pay his proportionate share of the costs, expenses and liabilities, as provided in section 15, the lien shall operate as an assignment to Operator of the consideration thereafter payable by the purchaser of such defaulting working interest owner's share of the oil and gas produced from the pooled area. Any monies received by operator through such assignment shall be applied on monies due to operator from such defaulting working interest owner hereunder. Any excess monies shall be refunded to such defaulting working interest owner.

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## PART VI

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### Operator

18. The Operator of the Pooled Area shall be Husky Oil & Refining Ltd.

19. The Operator shall have the full control and management of operations

in the Pooled Area with power to do whatever may be reasonable, prudent, necessary and expedient in the development and operation of the Pooled Area subject to the limitations herein provided and subject to the laws, regulations and orders in force from time to time in the Province of Saskatchewan.

20. The Operator shall with respect to all operations carried out by it on the Pooled Area pursuant hereto:

(a) Give written notice to each of the working interest owners of the staking of the location of the well, such notice to include the co-ordinates and ground elevation.

(b) Adequately test with approved methods and proper equipment in accordance with good oilfield practice the Mission Canyon formation in the well and notify each of the working interest owners of such test or tests, allowing such working interest owners' representatives to be present when such test is made at their own risk and expense; provided, however, that the Operator, having given notice of a test as herein set forth, shall not be required to delay the same until all or any of the representatives of the working interest owners are present.

(c) Conduct all operations with reasonable diligence and ordinary care, and the share of the Operator's liability in settlement of any claim for the loss or damage to any property or for injury, including death howsoever caused, shall be limited to the amount of his participating interest herein unless such loss, damage, injury or death was caused by gross negligence or wilful misconduct of the Operator.

(d) Forthwith give notice of any claim referred to in subsection (c) of this Section and of which he has knowledge, to each of the other working interest owners and Operator shall not settle any such claim unless each of the working interest owners has agreed in writing to said settlement, or unless the Operator has agreed to assume the total liability for the claim itself.

(e) Permit the other working interest owners, their agents, or employees, at the sole risk and expense of such other working interest owners, to have free



and full access to the well and the Pooled Area.

(f) Keep true and correct books, accounts and records of his operation in the Pooled Area for the benefit of each of the working interest owners and royalty owners and shall, if and when requested to do so, open his books, accounts and records to them, during ordinary business hours, for inspection or audit and provide true and correct statements to them in respect to any matter concerning the operations in the Pooled area.

(g) Keep accurate logs of the well which shall at all times be available for inspection by the other working interest owners and furnish each of the working interest owners with copies of the said logs, true and accurate daily drilling reports, weekly geological reports, samples of all cores, reports on core, water and other analysis and copies of electro-log and other well surveys and all formation samples as may be made and kept by the Operator with respect to the well in the performance of its obligations under this plan, as well as a true and accurate summary of the drilling and completion of the well.

(h) Afford to the working interest owners (and the working interest owners are hereby granted) the right, at its or their own risk and expense, and upon reasonable notice thereof to Operator, to run a geophone and make a velocity or any other test in any well as and when such working interest owner or owners may deem it necessary; provided, however, that no working interest owner shall run a geophone or make a velocity test in any such well in the event that Operator shall have given to such working interest owner or owners written notice that the hole is in unsatisfactory condition for such purpose.

(i) Except for the expenditures necessary to drill, test and complete or abandon the well required to be drilled by section 13 hereof, not make any expenditure for any single item in excess of five thousand (\$5,000.00) dollars unless such expenditure is approved in writing by owners of ninety per cent (90%) of the working interest; provided however that in the event of an emergency, Operator

shall be permitted to make such expenditures without first obtaining such written consent; and provided further that Operator shall advise the other working interest owners in writing of any expenditures so made together with the reasons for making the same as soon as is reasonably practicable after any such expenditure has been made, but in any event, not more than thirty days after the making thereof.

(j) Send to each of the working interest owners on or before the thirtieth day of each month, a statement showing the following:

(i) The total gross production from the Pooled Area during the previous month;

(ii) The total operating expenses itemized in detail and the portion thereof allocated to each Tract for the previous month;

(iii) The total production sold during the previous month and the gross proceeds received from the sale thereof.

## PART VII

### Ownership and Disposition of Well, Production and Equipment

21. Except as otherwise provided herein, each working interest owner shall have an undivided interest in the well, its equipment and the operating facilities thereof in proportion to his participating interest.

22. Except as otherwise provided herein, all production from the Pooled Area, or the proceeds of the sale thereof, shall be allocated to the working interest owners in accordance with their respective participating interests.

23. The Operator shall have the right to use, free of cost, all production from the well that is required for the purpose of developing and operating the Pooled Area.

24. Except as otherwise provided herein, each of the working interest owners may take in kind, or separately dispose of his proportionate share of the oil and gas produced from the Pooled Area ex-



clusive of production which may be used in development and producing operations on said Pooled Area and production unavoidably lost, and shall pay or cause to be paid all royalties, taxes, overriding royalties, net profit payments and any and all other burdens thereon whether of a similar or dissimilar nature to those heretofore enumerated, excluding however surface rentals. In the event any working interest owner shall fail to make the arrangements necessary to take in kind or separately dispose of his proportionate share of the oil and gas produced from the Pooled Area, Operator shall have the right to purchase such oil and gas or sell the same to others at not less than the market price prevailing in the area and at not less than the price which Operator receives for his own portion of such production; provided however that nothing herein contained shall be deemed to require the Operator to purchase any gas for which an economic market does not exist, or to prohibit him from flaring off or otherwise disposing of such gas in accordance with accepted oil field practice. Any extra expenditure incurred by taking in kind or separate disposition by any working interest owner of his proportionate share of production shall be borne by such working interest owner.

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## PART VIII

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### Royalties

25. For the purpose of calculating royalty with respect to each Tract, the amount of oil and gas production allocated to each Tract shall be considered as the amount produced from such Tract, and the royalties payable under the respective leases and other contracts under which interests in such Tract are held by working interest owners, shall be calculated upon such allocated portion of oil and gas production in accordance with the applicable provisions of such leases or contracts as if such allocated portion of such production were the actual production from such Tract, and not upon the actual production of oil or gas from such Tract. The royalties thus paid shall be in lieu of the royalties

that would have been paid on production of oil and gas in accordance with the provisions of the said leases and other contracts.

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## PART IX

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### Abandonment

26. The well shall not be abandoned without the mutual consent of the working interest owners; provided however if the working interest owners are unable to agree as to the abandonment of the well, then the working interest owner or owners not desiring to abandon the well shall, subject to section 14, pay to each of the working interest owners desiring to abandon their share of the salvage value of the material and equipment in and on said well, such value to be determined in accordance with the Accounting Procedure. Upon receipt of said sum, each working interest owner desiring to abandon such well shall, without expressed or implied warranty of title, assign his interest in said well and the equipment therein, together with all of his rights in all working interest in production from the Mission Canyon formation in the Pooled Area, to the working interest owner or owners electing not to abandon the well. If there is more than one non-abandoning working interest owner, such assignment shall run in favor of the non-abandoning working interest owners in proportion to their respective participating interests.

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## PART X

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### General

27. Surplus material and equipment, which in the judgment of the Operator is not necessary for the development and operation of the Pooled Area, may be sold by Operator for the benefit of the working interest owners. Proper charges and credits shall be made by Operator as provided in the Accounting Procedure.

28. Subject as herein provided, the duties, obligations and liabilities of the



working interest owners are several and not joint or collective, and nothing contained in this Plan shall be construed to create a partnership or association or any duties, obligations or liabilities associated with a partnership.

29.—(a) All transfers, assignments and conveyances of any interest in or with respect to any of the separately owned Tracts within the Pooled Area shall be subject to the terms, provisions and conditions of the Plan, but shall not be binding on the Operator, unless and until an original, photostatic or certified copy of the instrument evidencing such change of ownership has been delivered to the Operator. Each such transfer, assignment or conveyance, whether so stating or not, shall operate to impose upon the person acquiring such interest the obligation of the assignor or grantor with respect to the interest so transferred and shall likewise operate to give and grant to the person acquiring such interest all rights and benefits attributable to such interest under this Plan.

(b) Upon any transfer, assignment or conveyance being made pursuant to the provisions of this section, the necessary amendments shall be deemed to have been made in Part XII hereof.

30. All oil and gas leases, net profits contracts, or other instruments of whatsoever nature or kind, whether similar or dissimilar to those enumerated, in any way affecting the Pooled Area or any interest therein, or any working interest or royalty interest in production of oil or gas from the Pooled Area are hereby amended to the extent necessary to give effect to this Plan and as so amended shall continue in full force and effect.

31. The Operator shall carry Workmen's Compensation in accordance with the laws of the Province of Saskatchewan, and costs thereof shall be deemed to be part of the cost of operating the well.

32. The Operator shall carry for the benefit of itself and the other working interest owners such insurance as is usual in the industry for operations of a like nature. All cost of such insurance, together with actual expenditures incurred and paid by the Operator in settlement of any and all losses, claims, damages, judgments and any other expenses, including legal and services not covered by such insurance, shall be deemed to be costs of operating the well and shall be charged to the working interest owners in proportion to their participating interests in accordance with the terms of the Accounting Procedure.

33. This Plan shall remain in full force and effect for as long as oil and gas production is obtained in paying quantities from the well and thereafter until the well has been abandoned, plugged or otherwise disposed of, and until all materials, equipment and personal property used in connection with the operations hereunder have been removed and disposed of, and final settlement made between the working interest owners in liquidating all accounts by prompt payment each to the other of any balance which may be shown, to the end that each of the said working interest owners shall have shared all benefits and burdens hereunder in proportion to their participating interests.

34. Each of the working interest owners and the royalty owners shall from time to time and at all times do all such further acts and execute and deliver such further deeds and documents as shall be reasonably required to perform and carry out the terms of this Plan.

35. Any interested person may, at any time after the effective date, apply to the Minister for a rehearing.

36. This Plan shall enure to the benefit of and be binding upon the working interest owners and royalty interest owners, their respective heirs, executors, administrators, successors and assigns.



## PART XI

### NUMBERED TRACTS AND POOLED AREA

SEC.

31

HUSKY-MIC MAC-CAN SUP BONNER

O  
2-31

Lsd 7

Lsd 8

Lsd 2

Lsd 1



Tract No. 1



Tract No. 2



— — Outline of Pooled Area

BONNER No.2-31 DRAINAGE  
UNIT

Tp. 3 Rg.32 W.I.M.

DATE: Feb. 13, 1957.



## PART XII

### Participating and Royalty Interests in Each Numbered Tract

<i>Tract No.</i>	<i>Acres</i>	<i>Description</i>	<i>Tract Factor</i>	<i>Working Interest Owner</i>	<i>Royalty Owner</i>
1	5	Commencing at the southeast corner of the southeast quarter of section 31 in township 3, range 32, west of the 1st meridian thence north along the east boundary of the said quarter section 389 feet; thence west in a line parallel with the south boundary of said quarter section 555 feet, thence south in a line parallel with the east boundary of the said quarter section 389 feet more or less to the south boundary, thence east along the south boundary of said quarter section to the point of commencement.	5/80ths	Peter M. Carnduff of Carnduff, Saskatchewan and Sarah Ewart Bonnor of Carnduff, Saskatchewan as Executors of the Will of Peter Carnduff, deceased.	Estate of Peter Carnduff, deceased.
2	75	Lsds. Nos. 1 and 2 of section 31-3-32 west of the 1st excepting thereout and therefrom Tract No. 1 as hereinabove described.	75/80ths	Canadian Superior Oil of California Ltd.— $\frac{1}{2}$ Husky Oil & Refining Ltd.— $\frac{1}{4}$ Consolidated Mic Mac Oils Ltd.— $\frac{1}{4}$	Alexander Charles Bonnor of Carnduff, Saskatchewan

### SCHEDULE "A"

Attached to and made a part of Pooling Plan—Governing the development and operation of the drainage unit comprising Legal subdivisions 1 and 2 in sec. 31, twp. 3, rge. 32, W. 1st, in the Hastings Oil and Gas Field, Saskatchewan, in so far as such land relates to and comprises oil and/or gas as herein defined, in the Mission Canyon formation.

### ACCOUNTING PROCEDURE

#### (Unit and Joint Lease Operations)

##### I. GENERAL PROVISIONS

###### 1. Definitions

The term "joint property" as herein used shall be construed to mean the subject area covered by the Plan to which this "Accounting Procedure" is attached.

The term "Operator" as herein used shall be construed to mean the party designated to conduct the development and operation of the subject area for the joint account.

The term "Non-Operator" as herein used shall be construed to mean any one or more of the non-operating parties.

###### 2. Statements and Billings

The Operator shall bill Non-Operator on or before the last day of each month for its proportionate share of costs and expenditures during the preceding month. Such bills will be accompanied by statements, reflecting the total cost and charges as follows:

- (1) Detailed statement of material ordinarily considered controllable by operators of oil and gas properties;
- (2) Statement of all other charges and credits to the joint account summarized by appropriate classifications indicative of the nature thereof; and
- (3) Statement of any other receipts and credits.

###### 3. Payments by Non-Operator

Each party shall pay all such bills within thirty (30) days after receipt thereof. If payment is not made within such time, the unpaid balance may bear



interest at the rate of six per cent (6%) per annum until paid. Operator shall have and be entitled to a prior lien on all the rights and interests of Non-Operator in said joint properties, the production therefrom, and the material and equipment thereon, to secure the payment by Non-Operator of Non-Operator's portion of cost, purchases, and expenses of developing and operating the joint property as herein provided. Upon request Operator may require Non-Operator to advance his share of estimated cash outlay for the current month's operations.

#### 4. Audits

Payment of any such bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof. All statements rendered to Non-Operator by Operator during any calendar year shall be conclusively presumed to be true and correct after eighteen months following the close of any such calendar year, unless within said eighteen months Non-Operator takes written exception thereto and makes claim on Operator for adjustment or commences an audit of Operator's accounts and records relating to the accounting hereunder. Failure on the part of Non-Operator to make claim on Operator for adjustment, or to commence an audit within such period shall establish the correctness thereof and preclude the filing of exceptions thereto or the making of claims for adjustment thereon. A Non-Operator, upon notice in writing to Operator and all other Non-Operators shall have the right to audit Operator's accounts and records relating to the accounting hereunder, within eighteen months next following the close of any calendar year. Non-Operator shall have six months next following the examination of the Operator's records within which to take written exception to and make any and all claims on Operator. The provisions of this paragraph shall not prevent adjustments resulting from the physical inventory of property as provided for in Section VI, Inventories, hereof. Where there are two or more non-operators, the non-operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator.

## II. DEVELOPMENT AND OPERATING CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the joint account with the cost of the following items:

### 1. *Rentals and Royalties*

Rentals, when such rentals are paid by Operator for the joint account;

### 2. *Labour, Transportation and Services*

Labour, transportation, and other services necessary for the development, maintenance, and operation of the joint property. Labour shall include salaries and wages of Operator's employees, other than employees compensated for under paragraphs (11), (12) and (13) of this Section II, directly engaged in operations of the joint property and (A) Operator's cost of vacation, sickness and disability benefits of employees, and expenditures or contributions imposed or assessed by Governmental authority applicable to such salaries and wages, and (B) Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of like nature, applicable to Operator's payroll; provided that the charges under part (B) of this paragraph shall not exceed ten per cent (10%) of the total of such salaries and wages charged to the joint account.

### 3. *Material*

Material, equipment, and supplies purchased or furnished by Operator, for use of the joint property. So far as it is reasonably practical and consistent with efficient and economical operation, only such material shall be purchased for or transferred to the joint property as required for immediate use, and the accumulation of surplus stocks shall be avoided wherever possible.

### 4. *Moving Material to Joint Property*

Moving material to the joint property from vendors or from Operator's warehouse in district or from the other properties of Operator, but in either of the last two events no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where such material is available,



except by special agreement with Non-Operator.

#### *5. Moving Surplus Material from Joint Property*

Moving surplus material from the joint property to outside vendees, if sold f.o.b. destination, or minor returns to Operator's warehouse or other storage point. No charge shall be made to the joint account for moving major surplus material to Operator's warehouse or other storage point for a distance greater than the distance to the nearest reliable supply store or railway receiving point, except by special agreement with Non-Operator; and no charge shall be made to the joint account for moving material to other properties belonging to Operator, except by special agreement with Non-Operator.

#### *6. Use of Operator's Equipment and Facilities*

Use of and service by Operator's exclusively owned equipment and facilities as provided in paragraph 4, of Section III, "Basis of Charges to Joint Account".

#### *7. Damages and Losses*

Damages or losses incurred by fire, flood, storm or any other causes not controllable by Operator through the exercise of reasonable diligence. Operator shall furnish Non-Operator written notice of damage or losses incurred by fire, storm, flood or other natural or accidental causes as soon as practicable after report of the same has been received by Operator.

#### *8. Litigation, Judgments, and Claims*

All costs and expenses of litigation, or legal services otherwise necessary or expedient for the protection of the joint interest, including attorneys fees and expenses as hereinafter provided, together with all judgments obtained against the parties or any of them insofar as the same relate to the joint account or the subject matter of this agreement; actual expenses incurred by any party or parties hereto in securing evidence for the purpose of defending against any action or claim prosecuted or urged against the joint account or the subject matter of this agreement.

A. If a majority of the interests hereunder shall so agree, actions or claims affecting the joint interests hereunder

may be handled by the legal staff of one or more of the parties hereto, and a charge commensurate with the services rendered may be made against the joint account, but no such charge shall be made until approved by the legal department of or attorneys for the respective parties hereto.

B. Fees and expenses of outside attorneys shall not be charged to the joint account unless authorized by the majority of the interests hereunder.

#### *9. Taxes*

All taxes, rates, levies and assessments of every kind and nature levied, assessed or imposed upon or in connection with the joint property or any part thereof, the production therefrom or the operation thereof, which shall have been paid by the Operator for the benefit of the parties hereto, except taxes on profits.

#### *10. Insurance*

A. Premiums paid for insurance carried for the benefit of the joint account together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including legal services, not recovered from insurance carrier.

B. If no insurance is required to be carried, all actual expenditures incurred and paid by Operator in settlement of any and all losses, claims, damages, judgments, and any other expenses, including legal services, shall be charged to the joint account.

#### *11. District and Camp Expense*

A proportionate share of the salaries and expenses of Operator's district superintendent and other general district or field employees serving the joint property, whose time is not allocated direct to the joint property and a proportionate share of the cost of maintaining and operating a district office and all necessary camps, including housing facilities for employees if necessary, incurred in conducting the operations on the joint property and other leases owned and operated by Operator in the same locality. The expense of, less any revenue from, these facilities shall include depreciation or a fair monthly rental in lieu of depreciation on the investment. Such charges shall be apportioned to all leases served on some



equitable basis consistent with Operator's accounting practice.

## 12. Overhead

Overhead charges, which shall be in lieu of any charges for any part of the expenses, including salaries or compensation paid to managing officers and employees, of the division office and/or principal office of the Operator, but which are not in lieu of district or field office expenses incurred in developing and operating any joint property, or any other expenses of Operator, including but not limited to expenses chargeable under paragraph (2) of this Section II, incurred in the development and operation of joint property and Operator shall have the right to assess against the joint property on one of the following overhead bases:

### A. Per Well Basis:

\$60.00 per month for the producing well.

In connection with overhead charges, the status of wells shall be as follows:

(1) In-put or key wells shall be included in overhead schedule the same as producing oil wells.

(2) Producing gas wells shall be included in overhead schedule the same as producing oil wells.

(3) Wells permanently shut down but on which plugging operations are deferred, shall be dropped from overhead schedule at the time shutdown is effective. When such wells are plugged, overhead shall be charged at the producing well rate during the time required for the plugging operations.

(4) Wells being plugged back or drilled deeper shall be included in overhead schedule the same as drilling wells.

(5) Various wells may be shut down temporarily and later replaced on production. If and when a well is shut down (other than for proration) and not produced or worked upon for a period of a full calendar month, it shall not be included in the overhead schedule for such month.

(6) Salt water disposal wells shall not be included in overhead schedule as producing wells.

The above overhead schedule on producing wells shall be applied to individual leases; provided that, whenever leases

covered by this agreement are operated as a unitized project in the interest of economic development, the schedule shall be applied to the total number of wells, irrespective of individual leases.

The above specific overhead rates may be amended from time to time by agreement between Operator and Non-Operator if, in practice, they are found to be insufficient or excessive.

## 13. Warehouse Handling Charges

A handling charge to cover the cost of handling material into and in the warehouse shall be assessed on new and used material and equipment furnished from the Operator's warehouse on the following basis:

(A) Five per cent (5%) of the cost of tubular goods (2" and over) and major equipment such as tanks, separators, engines, etc.

(B) Ten per cent (10%) of the cost of all other material.

## 14. Other Expenditures

Any other expenditures incurred by Operator for the necessary and proper development, maintenance, operation and abandonment of the joint property. Notwithstanding anything herein contained, no charge shall be made for any interest or financing charges incurred by the Operator, except where incurred with the consent of Non-Operator.

## III. BASIS OF CHARGES TO JOINT ACCOUNT

### 1. Purchases

Material and equipment purchased and all services procured shall be charged at their invoiced cost to Operator after deduction of all discounts actually received.

### 2. Material Furnished by Operator

Material required for operations shall be purchased for direct charge to joint account whenever practicable, except that Operator may furnish such material from Operator's stocks under the following conditions:

#### A. New Material (Condition "A")

(1) New material transferred from Operator's warehouse or other properties shall be priced f.o.b. the nearest reputable supply store or railway receiving point, where such material is available, at cur-



rent replacement cost of the same kind of material. This will include material such as tanks, rigs, pumps, sucker rods, boilers, and engines. Tubular goods (2" and over) shall be charged on the basis of carload price effective at date of transfer and f.o.b. railway receiving point nearest the joint property, regardless of quantity transferred.

(2) Other material shall be priced on basis of a reputable supply company's preferential price list effective at date of transfer and f.o.b. the store or railway receiving point nearest the joint property where such material is available.

B. Used Material (Condition "B" and "C")

(1) Material which is in sound and serviceable condition and is suitable for re-use without reconditioning shall be classed as Condition "B" and priced at 75% of current new price.

(2) Material which cannot be classified as Condition "B" but which,

(a) After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or

(b) Is serviceable for original function but substantially not suitable for reconditioning, shall be classed as Condition "C" and priced at 50% of current new price.

(3) Tanks, derricks, buildings, and other equipment involving erection costs shall be charged at applicable percentage of dismantled current new price for similar materials.

(4) There may also be cases where some items of equipment due to their unusual condition, should be fairly and equitably priced by Operator, subject to approval of Non-Operator.

(5) Current new price, wherever used in this sub-paragraph 2B of this Section III shall have the same meaning and be determined in accordance with sub-paragraph 2A of this Section III.

3. *Warranty of Material Furnished by Operator*

Operator does not warrant the material furnished beyond or back of the dealer's or manufacturer's guaranty; and, in case of defective material, credit shall not be passed until adjustment has been received

by Operator from the manufacturers or their agents.

4. *Operator's Exclusively Owned Facilities*

The following rates shall apply to services rendered by facilities and equipment owned exclusively by Operator, provided such rates are not in excess of current prevailing rates of like service and equipment available in the area:

A. Water service, gas and power, booster and compressor services, etc., cost of such services including operation, maintenance, insurance, taxes and allowance for depreciation.

B. Automotive equipment, at rates commensurate with cost of ownership and operation and in line with schedule adopted by Operator for use in his operations. Charges will be based on use in actual service on, or in connection with the development and operation of the joint property.

C. Aircraft equipment, at rates commensurate with cost of ownership and operation. Charges will be made on a flight hour basis, based on use and actual service in connection with the development and operation of the joint property.

D. A fair rate shall be charged for the use of drilling and other machinery and equipment exclusively owned by Operator while used hereunder to cover maintenance, repairs, depreciation, for the service furnished the joint property. Drilling equipment lost in the hole or damaged beyond repair shall be charged to the joint account at a fair depreciated value.

Whenever requested Operator shall inform Non-Operator in advance of rates it proposes to charge.

Rates shall be revised from time to time when found to be either excessive or insufficient.

IV. DISPOSAL OF LEASE EQUIPMENT AND MATERIAL

The Operator shall be under no obligation to purchase interest of Non-Operator in surplus new or secondhand material. Derricks, tanks, buildings, and other major items shall not be removed by Operator from the joint property without the approval of Non-Operator. Operator shall not sell major items of material to an outside party without giv-



ing Non-Operator an opportunity either to purchase same at the price offered or to take Non-Operator's share in kind.

#### 1. *Material Purchased by Operator*

Material purchased by Operator shall be credited to the joint account and included in the monthly statement of operations for the month in which the material is removed from the joint property.

#### 2. *Material Purchased by Non-Operator*

Material purchased by Non-Operator shall be invoiced by Operator and paid for by Non-Operator to Operator immediately following receipt of invoice. The Operator shall pass credit to the joint account and include the same in the monthly statement of operations.

#### 3. *Division in Kind*

Division of material in kind, if made between Operator and Non-Operator, shall be in proportion to their respective interests in such material. Each party will thereupon be charged individually with the value of the material received or receivable by each party and corresponding credits will be made by the Operator to the joint account, and such credits shall appear in the monthly statement of operations.

#### 4. *Sales to Outsiders*

Sales to outsiders of material from the joint property shall be credited by Operator to the joint account at the net amount collected by Operator from vendee. Any claims by vendee for defective material etc., shall be charged back to the joint account, if and when paid by Operator.

### V. BASIS OF PRICING MATERIAL TRANSFERRED FROM PROPERTY

Jointly-owned material and equipment sold to either Operator or Non-Operator or divided in kind between them, unless otherwise agreed shall be valued on the following basis of condition and price: (new price as used in the following sub-divisions shall have the same meaning and be computed on the same basis as the price for new material in sub-paragraph 2A of Section III hereof).

#### 1. *New Material*

New material (Condition "A"), being new equipment or supplies purchased or

procured for the property but never used thereon, at one hundred per cent (100%) of current new price.

#### 2. *Good Used Material*

Good used material (Condition "B"), being good serviceable material which is further usable without reconditioning:

(a) At 75% of current new price if material was charged to joint account as new, or

(b) At 75% of current new price less depreciation consistent with its usage on and service to the joint property, if material was originally charged to the joint property as secondhand at 75% of new price.

#### 3. *Other Used Material*

Other used material (Condition "C"), being material which:

(a) After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or

(b) Is serviceable for original function but substantially not suitable for reconditioning at 50% of current new price.

#### 4. *Bad Order Material*

Bad order material (Condition "D"), being material not further usable for its original function but for possible other service, at a value commensurate with its use.

#### 5. *Junk*

Junk (Condition "E"), being obsolete and unserviceable material, at prevailing junk prices in the district.

6. There may also be cases where some items of equipment due to their unusual condition should be fairly and equitably priced by Operator subject to approval of Non-Operator.

### VI. INVENTORIES

#### 1. *Periodic Inventories*

Periodic inventories shall be taken by Operator of the joint account material at reasonable intervals but at least once in every five years which shall include all such material as is ordinarily considered controllable by operators of oil and gas properties.

#### 2. *Notice*

Notice of intention to take inventory shall be given by Operator at least ten (10) days before any inventory is to



begin, so that Non-Operator may be represented when any inventory is taken.

### *3. Failure to be Represented*

Failure of Non-Operator to be represented at the physical inventory shall bind Non-Operator to accept the inventory taken by Operator, who shall in that event furnish Non-Operator with a copy thereof.

### *4. Reconciliation of Inventory*

Reconciliation of inventory with charges to the joint account shall be made by each party at interest, and a list of overages and shortages shall be jointly determined by said parties.

### *5. Adjustment of Inventory*

Inventory adjustments shall be made by Operator with the joint account for overages and shortages, but Operator

shall only be held accountable to Non-Operator for shortages due to lack of reasonable diligence.

### *6. Inventory Expenses*

The expense of Operator's and Non-Operator's representatives present at the taking of regular inventory shall not be charged to the joint account.

### *7. Special Inventories*

Any party shall have the right at any time to request in writing the taking of a special inventory. The taking of such special inventory shall be commenced within fifteen (15) days after the receipt of notice thereof. The expense of Operator's representative in conducting any special inventory so requested shall be charged to the separate account of the requesting party.

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